

Message Text

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ACTION EB-06

INFO OCT-01 EUR-12 ISO-00 AGR-05 AID-05 IO-10 RSC-01

COME-00 TRSE-00 SWF-01 SP-02 NSC-05 CIEP-01 SS-15

STR-01 OMB-01 CEA-01 ARA-06 /073 W

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R 131827Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5658

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E.O. 11652: N/A

TAGS: EAGR, EEC, UK

SUBJ: SUGAR: PRODUCTION FORECAST

REF: STATE 245785

1. EMBOFFS DISCUSSED POINTS RAISED IN REFTTEL WITH INTERNATIONAL SUGAR ORGANIZATION (ISO) EXECUTIVE DIRECTOR JONES-PARRY AND ISO SECRETARY POLITOFF AT LUNCH NOVEMBER 12. IN SUBSTANCE THEIR VIEWS ARE: (A) FORECAST. STILL TOO EARLY TO DETERMINE WHETHER STRUCTURAL CHANGES HAVE TAKEN PLACE IN WORLD SUGAR MARKET BUT CONTINUING DEMAND GROWTH IS CERTAIN OVER LONG TERM. IN THIS SITUATION SHORT-TERM FACTORS AFFECTING SUPPLY CAN BE THE CRUCIAL DETERMINANT OF PRICES. THUS THE ACCIDENT OF WEATHER MAY BE SINGLE, MOST IMPORTANT FACTOR SUSTAINING CURRENT HIGH PRICES. NEXT YEAR THE SITUATION COULD BE CHANGED SUBSTANTIALLY IF WEATHER CONDITIONS, PARTICULARLY FOR BEETS, IMPROVE. (B) ISO STUDIES. THE ISO'S MOST RECENT STUDY IS C(74)L6 OF MAY 31, 1974, FOR 1974-78 PERIOD. JONES-PARRY HAS GIVEN US A COPY ON A FYI BASIS (AS NON-MEMBERS WE ARE NOT ENTITLED TO IT) WHICH IS BEING POUCHED. HOWEVER, THIS DOCUMENT NOW UNDER ATTACK AND BOTH JONES-PARRY AND POLITOFF

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EMPHASIZED PROJECTIONS ARE "NOT GOOD"--PROBABLY

NO BETTER THAN ANYBODY ELSE'S GUESS. (C) NEW INVESTMENT. THE ISO OFFICIALS WERE UNABLE TO QUANTIFY. IN RAMBLING DISCUSSION OF THE QUESTION, CONSENSUS WAS THAT THERE HAD BEEN SOME INDUCEMENT TO NEW INVESTMENT--BRAZIL AND CUBA ARE EXAMPLES--BUT TO EXPECT A MORE OR LESS AUTOMATIC RESPONSE IN THE FORM OF NEW CAPITAL INVESTMENT TO CURRENT HIGH SUGAR PRICES IS AN OVERSIMPLIFICATION. IN THIS REGARD, TWO IMPORTANT DAMPENERS ARE AT WORK: HISTORICAL EXPERIENCE AND THE INSULATING EFFECT OF GOVERNMENTS. REGARDING THE FORMER, PRODUCERS HAVE BEEN MADE CAUTIOUS BY THE VOLATILE NATURE OF THE SUGAR MARKET AND LONG PERIODS OF WEAKNESS. JONES-PARRY CITED AUSTRALIA, WHICH EXPANDED PRODUCTION ONLY TO RUN INTO A SITUATION OF WORLD OVERSUPPLY. CONCERNING THE ROLE OF GOVERNMENTS, THE ENTREPRENEUR LOOKS TO THE INTERNAL, LOCAL CURRENCY PRICE AND OTHER CONDITIONS SET BY THE AUTHORITIES RATHER THAN TO THE WORLD MARKET PRICE. THIS IS WHAT DETERMINES HIS PROFIT AND CONSEQUENTLY HIS WILLINGNESS TO INVEST (THE EC'S COMMON AGRICULTURAL POLICY IS A GOOD EXAMPLE OF SUCH INSULATION AND CONSEQUENT SKEWING OF OPPORTUNITY COSTS).

2. RE PARA 3 OF REFTTEL, THE ISO SECRETARIAT EXPECTS LITTLE TO BE ACCOMPLISHED IN THE FORTHCOMING (CEMBER 2-6) ISO MEETINGS. THEIR ASSESSMENT IS THAT THERE IS LITTLE DESIRE ON THE PART OF EITHER THE PRODUCERS OR THE CONSUMERS TO ENGAGE IN ANY CONSTRUCTIVE THOUGHT ON WHAT A NEW INTERNATIONAL SUGAR AGREEMENT SHOULD BE. WITH THIS IN MIND, JONES-PARRY SAID HE HAD RECENTLY

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COME-00 TRSE-00 SWF-01 SP-02 NSC-05 CIEP-01 SS-15

STR-01 OMB-01 CEA-01 ARA-06 /073 W

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CIRCULARIZED MEMBERS OF AD HOC WORKING GROUPS A AND B, RECENTLY ESTABLISHED FOR THE PURPOSE OF MAKING "A TECHNICAL EXAMINATION OF THE MATTER OF STOCKS," AND "PROBLEMS CONNECTED WITH PRICE INDEXATION," RESPECTIVELY, TO POSTPONE DELIBERATIONS UNTIL AFTER NEXT FEBRUARY'S UNCTAD MEETING. HE BELIEVES THAT THE OUTLOOK FOR THE WORLD MARKET IN GENERAL SHOULD BE MUCH CLEARER BY NEXT SPRING. HE SAID THAT US OBSERVER WILL BE INVITED TO ATTEND THE LAST TWO MEETINGS IN THE DECEMBER SERIES, THE MEETING OF THE CONSULTATIVE COMMITTEE ON DECEMBER 5 AND OF THE COUNCIL ON DECEMBER 6, SINCE, AS HE POINTED OUT, EVEN THOUGH LITTLE MIGHT BE ACCOMPLISHED, IT WAS IMPORTANT FOR THE US "TO SHOW THE FLAG." (THE US WILL NOT ATTEND THE MEETING OF THE STATISTIC COMMITTEE WHICH WILL, PRESUMABLY, CONSIDER UPDATING MARKET PROJECTIONS.)

3. ALLUDING TO PROPOSED LATIN AMERICAN PRODUCER MEETINGS, JONES-PARRY DISMISSED THESE AS "MORE USELESS TALK." PREDICTABLY, HE ARGUED STRONGLY THAT A COMMODITY AGREEMENT WITH ECONOMIC PROVISIONS, INVOLVING BOTH PRODUCERS AND CONSUMERS--NOT CARTELIZATION EFFORTS--PROVIDED THE REAL ANSWER. HE SAID THAT IT WAS DIFFICULT FOR THE ISO WITH ITS LIMITED EXPERTISE

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TO COME UP WITH DETAILED PROPOSALS AT THIS TIME, BUT THAT THE FOCUS SHOULD BE ON ESTABLISHING A CONCEPT OF MINIMUM PRICE VIA A STOCKS POLICY AND PERHAPS WITH SOME FORM OF INDEXATION. A GOOD AGREEMENT, HE SAID, WAS NEEDED TO INDUCE ADEQUATE PRODUCTION OVER THE LONG TERM TO MEET NORMAL DEMAND GROWTH IN TRADITIONAL MARKETS, AND MORE IMPORTANTLY, FOR THE RAPIDLY GROWING DEMAND OF LDC CONSUMERS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, INDUSTRIAL PRODUCTION, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON14862
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740327-0622
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741148/aaaabodv.tel
Line Count: 163
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 245785
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by kelleyw0>; APPROVED <17 MAR 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SUGAR: PRODUCTION FORECAST
TAGS: EAGR, UK, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005